

AGTEXAS FARM CREDIT SERVICES

**2009
Quarterly Report
Third Quarter**



For the Quarter Ended September 30, 2009

REPORT OF MANAGEMENT

The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his or her knowledge and belief.



Mitchell Harris
Chief Executive Officer

October 26, 2009



James Ray Schronk
Chairman, Board of Directors

October 26, 2009



Jerry Spruill
Chief Financial Officer

October 26, 2009

AGTEXAS FARM CREDIT SERVICES MANAGEMENT'S DISCUSSION AND ANALYSIS

The following commentary reviews the financial performance of the AgTexas Farm Credit Services (Agricultural Credit Association), referred to as the Association, for the quarter and nine months ended September 30, 2009. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2008 Annual Report of the Association.

The association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's audit committee.

Significant Events:

The Association is experiencing a significant slowing in the real estate sector of new loan applications during 2009 and is reflected in the slight decrease in loan volume at quarter end comparing with the last fiscal year end balances. Due to the decline in new loan originations, the fee income has decreased in the first nine months of 2009 by \$726,470 from the same period in 2008.

There has been deterioration in the loan portfolio as evidenced by the high risk asset schedule below. The recorded losses during the quarter, \$1,261,058, are largely due to capital debt market type loans purchased/shared within the Farm Credit System. These type loans are usually large agribusiness loans and are more affected by the state of the economy.

The Association is recognizing an increase in defined benefit pension expense of \$951,673 and has made an additional contribution to the fund during the first quarter of 2009. This significant increase in expense is being amortized monthly and is reflected in the salary and employee benefit expense.

During the second quarter of 2009, the Association reduced the number of employees. The cost of the reduction, special severance packages, is reflected in the higher salary and employee benefits category for the year to date comparisons. The change in human resources aligns the anticipated loan processing and needed capacities, with the result being a future lower salary and benefit operating cost.

During the first quarter of 2009, the Association recognized a gain on the sale of \$27,801,768 of individual loan securities in the amount of \$278,968. These were all fixed rate securities sold and then replaced during the year with variable rate U.S. agency guaranteed securities.

Loan Portfolio:

Total loans outstanding at September 30, 2009, including nonaccrual loans and sales contracts, were \$553,290,141 compared to \$554,038,897 at December 31, 2008, reflecting an decrease of 0.1 percent. Nonaccrual loans as a percentage of total loans outstanding were 2.1 percent at September 30, 2009, compared to 1.1 percent at December 31, 2008.

The Association recorded \$82,533 in recoveries and \$1,261,058 in charge-offs for the quarter ending September 30, 2009, and \$14,164 in recoveries and \$0 in charge-offs for the same period in 2008. The Association's allowance for loan losses was 0.2 percent and 0.2 percent of total loans outstanding as of September 30, 2009, and December 31, 2008, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	September 30, 2009		December 31, 2008	
	Amount	%	Amount	%
Nonaccrual	\$ 11,386,881	67.3%	\$ 6,069,477	94.0%
90 days past due and still accruing interest	5,387,213	31.9%	385,922	6.0%
Formally restructured	-	0.0%	-	0.0%
Other property owned, net	142,200	0.8%	-	0.0%
Total	<u>\$ 16,916,294</u>	<u>100.0%</u>	<u>\$ 6,455,399</u>	<u>100.0%</u>

The high risk asset table includes individual U.S. 100% guaranteed loan securities classified as loans on the balance sheet. As of quarter end, \$3,736,850 of individual U.S. 100% guaranteed loans were greater than 90 days past due and still accruing interest and included above in the September 30, 2009 column. The 100% U.S. guaranteed loan securities have a remaining unamortized premium of \$178,402 as of September 30, 2009.

Results of Operations:

The Association had net income of \$912,838 and \$2,719,537 for the three and nine months ended September 30, 2009, as compared to net income of \$1,714,423 and \$4,420,957 for the same periods in 2008 reflecting a decrease of 46.8 and 38.5 percent, respectively. Net interest income was \$3,252,101 and \$9,023,401, respectively, for the three and nine months ended September 30, 2009, compared to \$3,223,083 and \$8,745,217 for the same periods in 2008. Interest income for the first nine months of 2009 decreased by \$2,198,800 or 9.5 percent from the same periods of 2008, primarily due to declines in yields on earning assets with an decrease in average loan volume. Interest expense for the first nine months of 2009 decreased by \$2,476,984, or 17.1 percent, from the same periods of 2008 due to decrease in interest rates and a decrease in average debt volume. Average loan volume for the third quarter of 2009 was \$559,160,607, compared to \$584,896,928 in the third quarter of 2008. The average spread on the loan portfolio for the third quarter 2009 was 1.94 percent, compared to 1.77 percent in the third quarter of 2008. Net interest margin, which includes the spread between the Association cost of borrowing to fund a loan and the loan rate, plus the earnings from equity, increased .14% (2.24%-2.10%) in 2009 compared with the same period in 2008.

The Association's return on average assets (ROA) for the nine months ended September 30, 2009, was 0.63 and 1.13 percent for the same period in 2008. The Association's return on average equity (ROE) for the nine months ended September 30, 2009, was 6.49 and 11.21 percent for the same period in 2008.

The decline in ROA and ROE both declined mainly due to the increase in provisions to the allowance for loan losses during 2009. The 2009 year to date provisions are \$1,220,962 greater than 2008. Other items to note that reduced the income include a decrease in fee income of \$726,470, a decline in financially related services income of \$364,635 and an increase in salary and employee benefits of \$290,206. Operating income in 2009 was increased with a gain on sale of individual loan securities of \$278,968 and a decrease in operating expenses, excluding severance expense for the reduction in employees, of \$146,253.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (The Bank), which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	September 30, 2009	December 31, 2008
Note payable to the Bank	\$ 537,601,643	\$ 524,372,757
Accrued interest on note payable	1,292,926	1,810,157
Total	<u>\$ 538,894,569</u>	<u>\$ 526,182,914</u>

Capital Resources:

The Association's capital position increased by \$2,812,447 at September 30, 2009, compared to December 31, 2008. The Association's debt as a percentage of members' equity was 9.59:1 as of September 30, 2009, compared to 9.99:1 as of December 31, 2008.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of seven percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at September 30, 2009, was 10.9 percent, which is in compliance with the FCA's minimum permanent capital

standard. The Association's core surplus ratio and total surplus ratio at September 30, 2009, were 10.3 and 10.3 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

Relationship with the Farm Credit Bank of Texas:

The Association's financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder's investment in the Association. The Management's Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2008 Annual Report of AgTexas Farm Credit Services more fully describe the Association's relationship with the Bank.

The Tenth Farm Credit District's (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District's quarterly and annual stockholder reports also can be requested by e-mail at fcb@farmcreditbank.com. The District makes its annual and quarterly stockholder reports available on its web site at www.farmcreditbank.com.

The Association's quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to AgTexas FCS, P.O. Box 53240, Lubbock, Texas 79453 or calling 806-687-4068. Copies of the Association's quarterly stockholder reports can also be requested by e-mailing jspruill@agtexas.com.

AGTEXAS FARM CREDIT SERVICES

CONSOLIDATED BALANCE SHEET

	September 30, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
Cash	\$ 856,182	\$ 2,861,414
Investments	29,009,492	17,928,982
Loans	553,290,141	554,038,897
Less: allowance for loan losses	<u>840,366</u>	<u>950,003</u>
Net loans	552,449,775	553,088,894
Accrued interest receivable	8,716,408	9,393,528
Investment in and receivable from the Bank:		
Capital stock	9,120,035	9,120,035
Other	1,560,002	1,149,888
Other property owned, net	142,200	-
Premises and equipment	2,606,295	2,817,623
Other assets	<u>724,769</u>	<u>528,591</u>
Total assets	<u><u>\$ 605,185,158</u></u>	<u><u>\$ 596,888,955</u></u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 537,601,643	\$ 524,372,757
Advance conditional payments	4,401,567	8,545,285
Accrued interest payable	1,295,991	1,810,158
Drafts outstanding	453,317	2,858,739
Patronage distributions payable	-	1,200,000
Other liabilities	<u>4,296,676</u>	<u>3,778,499</u>
Total liabilities	<u><u>548,049,194</u></u>	<u><u>542,565,438</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,606,565	2,703,015
Allocated retained earnings	10,693,145	10,693,068
Unallocated retained earnings	43,588,755	40,595,928
Accumulated other comprehensive income (loss)	<u>247,499</u>	<u>331,506</u>
Total members' equity	<u>57,135,964</u>	<u>54,323,517</u>
Total liabilities and members' equity	<u><u>\$ 605,185,158</u></u>	<u><u>\$ 596,888,955</u></u>

AGTEXAS FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF INCOME
(unaudited)

	Quarter Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
<u>INTEREST INCOME</u>				
Loans	\$ 7,086,183	\$ 8,587,905	\$ 20,871,463	\$ 23,037,579
Investments	41,260	160,553	202,494	-
Other	-	-	-	235,178
Total interest income	7,127,443	8,748,458	21,073,957	23,272,757
<u>INTEREST EXPENSE</u>				
Note payable to the Bank	3,871,748	5,507,055	12,031,073	14,432,627
Advance conditional payments	3,594	18,320	19,483	94,913
Total interest expense	3,875,342	5,525,375	12,050,556	14,527,540
Net interest income	3,252,101	3,223,083	9,023,401	8,745,217
<u>PROVISION FOR LOSSES</u>				
Provision (negative provision) for loan losses	730,581	25,911	1,163,558	(57,404)
Provision for acquired property losses	-	-	-	-
Net interest income after provision for loan losses	2,521,520	3,197,172	7,859,843	8,802,621
<u>NONINTEREST INCOME</u>				
Income from the bank:				
Patronage income	429,585	51,436	1,251,369	765,324
Loan fees	135,648	267,155	500,934	1,227,404
Financially related services income	289,358	666,581	903,465	1,268,100
Gain (loss) on sale of loan securities	-	-	278,968	-
Gain (loss) on other property owned, net	-	-	-	(492)
Gain (loss) on sale of premises and equipment, net	-	35,831	31,587	47,862
Other noninterest income	5,540	2,699	78,096	71,942
Total noninterest income	860,131	1,023,702	3,044,419	3,380,140
<u>NONINTEREST EXPENSES</u>				
Salaries and employee benefits	1,638,581	1,663,649	5,308,169	5,017,963
Directors' expense	36,687	44,699	136,435	121,117
Purchased services	82,992	65,218	290,013	339,989
Travel	74,770	106,977	213,502	302,223
Occupancy and equipment	225,039	236,620	697,934	744,217
Communications	38,513	42,131	128,409	118,927
Advertising	18,127	31,714	83,577	94,034
Public and member relations	38,394	50,826	148,919	198,283
Supervisory and exam expense	41,014	36,754	114,521	98,323
Insurance Fund premiums	184,142	144,801	535,508	420,580
Other noninterest expense	90,554	83,062	248,770	306,148
Total noninterest expenses	2,468,813	2,506,451	7,905,757	7,761,804
Income before income taxes	912,838	1,714,423	2,998,505	4,420,957
Provision for (benefit from) income taxes	-	-	-	-
Net income	\$ 912,838	\$ 1,714,423	\$ 2,998,505	\$ 4,420,957

AGTEXAS FARM CREDIT SERVICES

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY
(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2007	\$ 2,569,760	\$ 11,219,573	\$ 37,455,079	\$ 443,178	\$ 51,687,590
Adjustment to beginning balance due to FAS No. 158 accounting change	-	-	-	-	-
Balance at January 1, 2008	2,569,760	11,219,573	37,455,079	443,178	51,687,590
Comprehensive income					
Net income	-	-	4,420,957	-	4,420,957
Change in unrealized gains (losses) on investment securities	-	-	-	167,353	167,353
Amortization of costs included in periodic retirement benefit costs	-	-	-	(76,260)	(76,260)
Total comprehensive income	-	-	4,420,957	91,093	4,512,050
Capital stock/participation certificates issued	548,410	-	-	-	548,410
Capital stock/participation certificates and allocated retained earnings retired	(450,180)	-	-	-	(450,180)
Stock equalization	-	-	-	-	-
Dividends declared	-	-	-	-	-
Patronage refunds:					
Cash	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	(1,301,505)	(1,023,034)	-	(2,324,539)
Balance at September 30, 2008	\$ 2,667,990	\$ 9,918,068	\$ 40,853,002	\$ 534,271	\$ 53,973,331
Balance at December 31, 2008	\$ 2,703,015	\$ 10,693,068	\$ 40,595,928	\$ 331,506	\$ 54,323,517
Comprehensive income					
Net income	-	-	2,998,505	-	2,998,505
Change in unrealized gains (losses) on investment securities	-	-	-	(20,624)	(20,624)
Amortization of costs included in periodic retirement benefit costs	-	-	-	(63,383)	(63,383)
Total comprehensive income	-	-	2,998,505	(84,007)	2,914,498
Capital stock/participation certificates issued	752,565	-	-	-	752,565
Capital stock/participation certificates and allocated retained earnings retired	(849,015)	-	-	-	(849,015)
Stock equalization	-	-	-	-	-
Dividends declared	-	-	-	-	-
Patronage refunds:					
Cash	-	-	-	-	-
Capital stock/participation certificates and allocated retained earnings	-	77	(5,678)	-	(5,601)
Balance at September 30, 2009	\$ 2,606,565	\$ 10,693,145	\$ 43,588,755	\$ 247,499	\$ 57,135,964

AGTEXAS FARM CREDIT SERVICES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The AgTexas Farm Credit Services (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Brown, Cochran, Comanche, Crosby, Eastland, Ellis, Erath, Gaines, Garza, Hamilton, Hill, Hockley, Hood, Johnson, Lubbock, Lynn, Navarro, Parker, Somervell, Tarrant, Terry, Wise and Yoakum. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

Effective January 1, 2009, the Association adopted accounting guidance for fair value measurements of nonfinancial assets and nonfinancial liabilities. The impact of adoption resulted in additional fair value disclosures but did not have an impact on our financial condition or results of operations.

In April 2009, the FASB issued guidance, "Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly". The guidance emphasizes that even if there has been a significant decrease in the volume and level of activity for the asset or liability and regardless of the valuation technique and inputs used, the objective for fair value measurement is unchanged from what it would be if markets were operating at normal activity levels or transactions were orderly; that is, to determine the current exit price. It sets forth additional factors that should be considered to determine whether there has been a significant decrease in volume and level of activity when compared with normal market activity. The reporting entity shall evaluate the significance and relevance of the factors to determine whether, based on the weight of evidence, there has been a significant decrease in activity and volume. The guidance indicates that if an entity determines that either the volume or level of activity for an asset or liability has significantly decreased (from normal conditions for that asset or liability) or price quotations or observable inputs are not associated with orderly transactions, increased analysis and management judgment will be required to estimate fair value. It is further noted that a fair value measurement should include a risk adjustment to reflect the amount market participants would demand because of the risk (uncertainty) in the cash flows.

This guidance also requires a reporting entity to make additional disclosures in interim and annual periods. It is effective for interim periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. Revisions resulting from a change in valuation techniques or their application are accounted for as a change in accounting estimate. The Association adopted the guidance in second quarter 2009. The adoption did not have a material impact on the financial condition or results of operations of the Association.

In April 2009, the FASB issued guidance, "Recognition and Presentation of Other-Than-Temporary Impairments", which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt securities in the financial statements. It does not change existing recognition and measurement guidance related to other-than-temporary impairments of equity securities.

This guidance changes existing impairment guidance related to accounting for certain investments in debt and equity securities by eliminating the "ability and intent to hold" provision. In addition, impairment is now considered to be other than temporary if an entity (i) intends to sell the security, (ii) more likely than not will be required to sell the security before recovering its cost, or (iii) does not expect to recover the security's entire amortized cost basis (even if the entity does not intend to sell). The "probability" standard relating to the collectability of cash flows is also eliminated, and impairment is now considered to be other-than-temporary if the present value of cash flows expected to be collected from the debt security is less than the amortized cost basis of the security (any such shortfall is referred to as a "credit loss"). If an entity intends to sell an impaired debt security or more likely than not will be required to sell the security before recovery of its amortized cost basis less any current-period credit loss, the impairment is other-than-temporary and should be recognized currently in earnings in an amount equal to the entire difference between fair value and amortized cost. If a credit loss exists, but an entity does not intend to sell the impaired debt security and is not more likely than not to be required to sell before recovery, the impairment is other-than-temporary and should be separated into (i) the estimated amount relating to credit loss, and (ii) the amount relating to all other factors. Only the estimated credit loss amount is recognized currently in earnings, with the remainder of the loss amount recognized in other comprehensive income. For held-to-maturity securities, the portion of the other-than-temporary impairment not related to a credit loss will be recognized in a new category of other comprehensive income and amortized over the remaining life of the debt security as an increase in the security's carrying amount. Disclosure requirements for impaired debt and equity securities are expanded and will now be required quarterly, as well as annually.

The guidance was effective for interim and annual periods ending after June 15, 2009, with early application permitted for periods ending after March 15, 2009. For securities held at the beginning of the interim period of adoption for which an other-than-temporary impairment was previously recognized, if an entity does not intend to sell and it is more likely than not that it will be

required to sell before recovery of its amortized cost basis, the entity shall recognize the cumulative effect of initially applying this guidance as an adjustment to the opening balance of retained earnings with a corresponding adjustment to accumulated other comprehensive income. The Association adopted the guidance and recognized an adjustment to beginning retained earnings in the amount of \$0, and a corresponding adjustment to accumulated other comprehensive income of \$0.

In May 2009, the FASB issued guidance, "Subsequent Events", which sets forth general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. There are two types of subsequent events: the first type consists of events or transactions that provide additional evidence about conditions that existed at the balance sheet date (recognized subsequent events) and the second type consists of events that provide evidence about conditions that did not exist at the balance sheet date but arose after that date (nonrecognized subsequent events). Recognized subsequent events should be recognized in the financial statements since the conditions existed at the date of the balance sheet. Nonrecognized subsequent events are not recognized in the financial statements since the conditions arose after the balance sheet date but before the financial statements are issued or are available to be issued. This guidance, which includes a required disclosure of the date through which an entity has evaluated subsequent events, was effective for interim or annual periods ending after June 15, 2009.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management's estimates. The results for the quarter and the nine months ended September 30, 2009, are not necessarily indicative of the results to be expected for the year ended December 31, 2009. Certain amounts in the prior period's financial statements have been reclassified to conform to current financial statement presentation.

NOTE 2 — Investments:

Available-for-Sale

A summary of the amortized cost and fair value of investment securities available-for-sale, excluding mission-related and other investments, at September 30, 2009 is as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
<u>September 30, 2009</u>					
U.S. agency securities	28,911,979	97,513	-	29,009,492	3.25%
<u>December 31, 2008</u>					
U.S. agency securities	17,810,845	118,137	-	17,928,982	3.30%

The Association evaluates investment securities for other-than-temporary impairment on a quarterly basis. Factors considered in determining whether an impairment is other-than-temporary include: 1) the length of time and the extent to which the fair value is less than cost, 2) whether or not we intend to sell the security, 3) whether it is more likely than not that we would be required to sell the security before recovering its costs, or, 4) whether we do expect to recover the security's entire amortized cost basis (even if we do not intend to sell). In addition, we qualitatively consider all available information when assessing whether impairment is other-than-temporary. Based on the results of these evaluations, if it is determined that the impairment is other-than-temporary, the carrying value of the security is written down to fair value, the credit-related portion is recognized through earnings and the non-credit related portion is recognized in other comprehensive income. As of quarter end, there were no marketable investments classified as other than temporarily impaired.

NOTE 3 — ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors

are considered, including economic conditions, loan portfolio composition and prior loan loss experience. An analysis of the allowance for loan losses follows:

	September 30, 2009	September 30, 2008
Balance at beginning of quarter	\$ 1,288,310	\$ 414,085
Provision for loan losses	730,581	25,911
Charge-offs	(1,261,058)	-
Recoveries	82,533	14,164
Balance at end of quarter	<u>\$ 840,366</u>	<u>\$ 454,160</u>

The following table presents information concerning impaired loans:

	September 30, 2009	September 30, 2008
Impaired loans with related allowance	\$ 3,390,984	\$ 2,035,233
Impaired loans with no related allowance:		
Loans	\$ 9,646,260	\$ 456,820
100% U.S. guaranteed loans	3,736,850	169,497
Total impaired loans	<u>\$ 16,774,094</u>	<u>\$ 2,661,550</u>
Allowance on impaired loans	\$ 353,000	\$ 104,275
Average impaired loans	\$ 13,584,445	\$ 2,478,945
Interest income on impaired loans for the quarter	\$ 73,320	\$ 10,896

The impaired loan table includes impairments of individual U.S. 100% guaranteed loan securities classified as loans on the balance sheet. As of quarter end, \$3,736,850 of individual U.S. 100% guaranteed loans were greater than 90 days past due and included in the impaired loans with no related allowance. The impaired individual loan securities have a remaining unamortized premium of \$178,402 as of September 30, 2009.

The increase in impaired loans can be attributed to the recession with a large portion of the impairments related to capital market participations.

NOTE 4 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected dividends, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities, such as funding and interest rate risk, potential obligations under joint and several liability, contingent and off-balance-sheet liabilities or other conditions warranting additional capital. At least quarterly, management reviews the Association's goals and objectives with the board.

NOTE 5 — INCOME TAXES:

AgTexas Farm Credit Services and its subsidiary are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. During 2009, the Association is participating in a patronage program. Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (over 50 percent probability), based on management's estimate, that they will not be realized. For the nine months ended September 30, 2009, and 2008 net income for tax purposes was recorded at \$0 due to the Association's subchapter T patronage deductions.

The subsidiary, AgTexas, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 6 — FAIR VALUE MEASUREMENTS:

Authoritative guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 12 to the 2008 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a recurring basis at September 30, 2009 are summarized below:

	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Investments available-for-sale	\$ -	\$ 29,009,492	\$ -	\$ 29,009,492

Valuation Techniques

As more fully discussed in Note 12 to the 2008 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Bank and its related Associations' assets and liabilities. For a more complete description, see Notes to the 2008 Annual Report

Investment Securities

Where quoted prices are available in an active market, available-for-sale securities are classified as Level 1. If quoted prices are not available in an active market, the fair value of securities is estimated using quoted prices for similar securities received from pricing services, pricing models that utilize observable inputs or discounted cash flows. Generally, these securities are classified as Level 2. This would include certain mortgage-backed securities. Where there is limited activity or less transparency around inputs to the valuation, the securities are classified as Level 3. Securities classified within Level 3 include asset-backed securities and certain mortgage-backed securities, including those issued by Farmer Mac.

As stated in the above table, all Association marketable securities are currently classified as level 2.

Loans

For certain loans evaluated for impairment under authoritative guidance, the fair value is based upon the underlying collateral since the loans were collateral dependent loans for which real estate is the collateral. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a results, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value. Cost to sell represent transaction costs and are not included as a component of the assets fair value.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The following table summarizes the components of net periodic benefit costs for the nine months ended September 30, :

	Other Benefits	
	2009	2008
Service cost	\$ 55,068	\$ 50,016
Interest cost	108,894	100,089
Expected return on plan assets	-	-
Amortization of prior service costs	(76,458)	(77,463)
Amortizations of net (gain) loss	20,580	1,203
Net periodic benefit cost	<u>\$ 108,084</u>	<u>\$ 73,845</u>

The Association previously disclosed in its financial statements for the year ended December 31, 2008, that it expected to contribute \$1,680,933 to its defined pension plan in 2009. As of September 30, 2009, \$1,680,933 of contributions has been made. The Association does not anticipate contributing any additional funds to its defined pension plan in 2009.

NOTE 8 — Subsequent Events:

The Association has evaluated subsequent events through November 1, 2009, which is the date the financial statements were issued with no further adjustments or known events requiring disclosure.